

Message Text

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ORIGIN NEA-11

INFO OCT-01 ISO-00 AID-05 TRSE-00 OMB-01 SS-15 SP-02
NSC-05 PA-01 CIAE-00 INR-10 NSAE-00 H-01 EB-08
IO-13 /073 R

DRAFTED BY NEA/EGY:CAKENNEDY/BD
5-26-78 22365
APPROVED BY NEA:NAVELIOTES
AA/NE:JWHEELER

-----007395 272223Z /66

R 272113Z MAY 78
FM SECSTATE WASHDC
TO AMEMBASSY CAIRO
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
INFO AMEMBASSY DOHA
AMEMBASSY ABU DHABI

C O N F I D E N T I A L STATE 135986

E.O. 11652: GDS

TAGS: EFIN, EAID, EG, US, IBRD, IMF

SUBJECT: ARAB AID TO EYPT

1. AMBASSADOR EILTS, AA/NE WHEELER AND IBRD VICE PRESIDENT BENJENK, LUNCED TOGETHER IN DEPARTMENT MAY 24. DURING CONVERSATION, THEY AGREED IT WOULD BE A GOOD IDEA IF USG REPRESENTATIVES AGAIN APPROACHED EGYPTIANS AND ARAB DONORS REGARDING ARAB AID TO EGYPT.
 2. THE WORLD BANK ESTIMATES THAT EGYPT HAS NEED FOR AN ADDITIONAL \$1 BILLION IN COMMITMENTS FROM GODE IN 1978. THIS IS ABOVE CURRENT GODE PIPELINE OF ONE-HALF BILLION DOLLARS, WHICH THE BANK ESTIMATES WILL BE DISBURSED THIS YEAR AND EXCLUSIVE OF DISBURSEMENTS TO BE MADE FROM OTHER
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DONORS. OUR OWN ANALYSIS SUPPORTS THIS NEED FOR AN ADDITIONAL \$1 BILLION IN COMMITMENTS IN 1978. IN THIS CONTEXT AND BEARING IN MIND THE MOST RECENT INFORMATION WE HAVE ON THE GOE-IMF NEGOTIATIONS AND MINECON EL-SAYEH'S UPCOMING VISIT TO GULF COUNTRIES (CAIRO 13652 NOTAL) WE BELIEVE IT WOULD BE USEFUL FOR USG REPRESENTATIVES TO APPROACH HOST GOVERNMENT IN SUPPORT OF THE IBRD'S ANALYSIS OF EGYPT'S

FINANCIAL NEEDS AND IMF AND IBRD CONCLUSIONS THAT EGYPT HAS MADE PROGRESS ON ECONOMIC REFORM, AND TO REAFFIRM THE IMPORTANCE WE ATTACH TO THE UPCOMING CONSULTATIVE GROUP IN PARIS.

3. FOR CAIRO: CHARGE SHOULD ARRANGE TO SEE VICE PRESIDENT AND MINECON PRIOR TO LATTER'S TRIP THROUGH THE GULF, TO FOLLOW UP ON AMBASSADOR EILTS' PREVIOUS CONVERSATIONS WITH

BOTH OFFICIALS RE EGYPT'S NEED TO MAKE A STRONG AND CREDIT-ABLE CASE TO ARAB DONORS FOR ARAB AID.

4. IN YOUR DISCUSSION WITH THE VICE PRESIDENT YOU SHOULD SUGGEST THE DESIRABILITY THAT SADAT CONSIDER DRAFTING LETTERS TO SAUDI CROWN PRINCE AND KUWAIT AMIR FOR DELIVERY BY MINECON DURING HIS SWING THROUGH THE GULF. LETTERS SHOULD NOTE EGYPT'S ECONOMIC PROGRESS LAST YEAR, THE REFORM MEASURES UNDERTAKEN, AND STRONGLY REAFFIRM EGYPT'S INTENTION TO PURSUE SOUND ECONOMIC AND MANAGEMENT POLICIES.

5. IN YOUR CONVERSATION WITH MINECON, YOU SHOULD MAKE HIM AWARE OF ARAB DOUBT ABOUT EGYPTIAN FIGURES AND DETERMINATION RE ECONOMIC REFORM POLICIES, ESPECIALLY WITH KAISOUNI NOW OUT OF CABINET. ARAB AND IFI CONFIDENCE HAS BEEN SHAKEN BY CABINET CHANGES INVOLVING ECONOMIC TEAM. THEY WILL NEED STRONG, CREDIBLE ASSURANCES OF EGYPT'S CONFIDENTIAL

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ABILITY AND DESIRE TO PROCEED WITH SOUND ECONOMIC AND MANAGEMENT POLICIES. MINECON, IN DISCUSSION WITH ARAB DONORS, SHOULD USE IMF AND IBRD FIGURES AND SUPPORTING ARGUMENTS/CONCLUSIONS AS MUCH AS POSSIBLE. HE SHOULD MAKE STRONG PITCH THAT THERE IS NO ADVERSE CHANGE IN EGYPTIAN ECONOMIC POLICIES. HE ALSO SHOULD MAKE POINT THAT STRENGTHENING ECONOMIC TEAM'S HAND IN EGYPTIAN CABINET IS BEST DONE BY CONTINUED GENEROUS AND FLEXIBLE SUPPORT FROM ARABS FOR EGYPTIAN ECONOMY. MINECON SHOULD EMPHASIZE IMPORTANCE OF UPCOMING CG MEETING AND HIGH LEVEL OF EGYPTIAN DELEGATION. IN THIS REGARD, FIRST CG MEETING ESSENTIALLY WAS ORGANIZATIONAL. THIS SECOND MEETING WILL DEAL WITH CRITICAL ISSUE OF SUFFICIENT SUPPORT TO CONTINUE AND FURTHER IMPLEMENT SOUND ECONOMIC POLICIES. YOU MAY TELL MINECON THAT WE ARE SUGGESTING A LETTER FROM SADAT TO SAUDI CROWN PRINCE AND KUWAIT AMIR FOR HIM TO DELIVERY DURING HIS TRIP.

6. FOR VICE PRESIDENT AND MINECON: YOU MAY INFORM BOTH OFFICIALS THAT WE ARE MAKING SUPPORTIVE REPRESENTATIONS IN ARAB DONOR CAPITALS (KUWAIT AND SAUDI ARABIA)

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7. FOR JIDDA AND KUWAIT: AMBASSADOR OR CHARGE SHOULD APPROACH APPROPRIATE HOST GOVERNMENT OFFICIALS AND, RE-CALLING THEIR RECENT CONVERSATIONS ON AID TO EGYPT, MAKE THE FOLLOWING POINTS:

--DURING FIRST CG MEETING, IBRD MADE STRONG PLEA FOR DONORS TO BE STEADFAST IN THEIR RESOLVE TO HELP EGYPT. IT WAS MADE CLEAR TO ALL BY IBRD SPONSORS THAT DONORS, IN ORDER TO ASSIST EGYPT, SHOULD EXPECT TO "STAY THE COURSE" FOR AT LEAST FOUR-FIVE YEARS. THIS CONCEPT WAS ACCEPTED BY ALL THOSE PRESENT. WE ARE APPROACHING UPCOMING CG ON THIS BASIS AND HOPE OTHER DONORS WILL DO LIKEWISE.

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--USG, IBRD AND IMF ARE IN GENERAL AGREEMENT ON EGYPTIAN NEED FOR AID DISBURSEMENTS FROM CODE DONORS OF ABOUT \$1 BILLION FROM COMMITMENTS NOT YET FIRMED-UP. THERE IS A GENERAL RECOGNITION THAT EGYPT MADE ECONOMIC PROGRESS IN 1977 WITH IMPROVED FINANCIAL MANAGEMENT LARGELY BECAUSE OF SUBSTANTIAL ARAB AID. EGYPT MET MOST OF ITS GOALS UNDER IMF STANDBY. GOE-IMF NOW CLOSE TO ANOTHER AGREEMENT. IMF NOW RECOGNIZES THAT EGYPT HAS UNDERTAKEN SIGNIFICANT INDUSTRIAL PRICE INCREASES IN 1977 AND 1978. ITS CREDIT WORTHINESS HAS IMPROVED AS A RESULT OF GOOD DEBT MANAGEMENT IN 1977. EGYPT ALSO HAS MADE GAINS IN CONTROLLING ITS BUDGET DEFICIT, ESPECIALLY REGARDING THE MAGNITUDE OF SUBSIDIES. WE BELIEVE EGYPTIANS ARE SERIOUSLY AND SINCERELY PURSUING BETTER POLICY AND MANAGEMENT PRINCIPLES BUT THEY MUST CONTINUE TO GET EXTERNAL SUPPORT FOR FURTHER PROGRESS. WE RECOGNIZE THAT MUCH REMAINS TO BE DONE.

--ARAB DONORS WILL RECOGNIZE THAT EGYPT NEEDS A VARIETY OF TYPES OF SUPPORT. CURRENT PROJECT PIPELINE IS ESTIMATED AT ABOUT \$2 BILLION. IMPORT FINANCING AND CASH LOANS ARE VERY IMPORTANT ELEMENTS IN PROGRAMS TO AID EGYPT. DONOR COUNTRIES ARE ALL IN THIS TOGETHER AND SHARE COMMON ECONOMIC AND DEVELOPMENTAL GOALS. IBRD PROJECTIONS SUGGEST A POSSIBLE FURTHER REDUCTION IN FUTURE YEARS FOR CASH TYPE AID, BUT REQUIREMENTS FOR SUCH CASH AID STILL EXIST THIS YEAR. WE ARE LOOKING FOR WAYS TO HELP OTHER COUNTRIES FIND SUITABLE PROJECTS TO KEEP THE FLOW OF AID TO EGYPT AT ADEQUATE LEVELS.

--REGARDING UPCOMING CG MEETING, WE ARE CONCERNED THAT DONOR MEMBERS SEND SUFFICIENTLY HIGH LEVEL REPRESENTATIVES. EGYPT IS FIELDING HIGH-LEVEL, LARGE DELEGATION. THE USDEL WILL BE AT THE SAME LEVEL AS LAST YEAR. EGYPTIANS, ES-
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PECIALLY ECONOMIC TEAM, NEEDS VISIBLE SHOW OF SUPPORT AND INTEREST. IT WOULD NOT, IN OUR OPINION, BE A GOOD TIME TO SEND LOW-LEVEL REPS. IF EGYPT NEEDS TO BUILD UP CONFIDENCE OF DONORS, LATTER ALSO HAVE OBLIGATION TO DEMONSTRATE SUPPORT FOR EGYPTIAN ECONOMIC GOALS.

--WE, ARAB DONORS, IFI'S AND OTHER CG MEMBERS NEED TO JOIN FORCES IN ENCOURAGING EGYPTIANS TO PURSUE SOUND ECONOMIC AND MANAGEMENT POLICIES. AT THE SAME TIME, DONORS MUST SHOW WILLINGNESS TO HELP EGYPT OVERCOME SEVERE OBSTACLES TO IMPLEMENTING ECONOMIC REFORMS.

--REGARDING OBSTACLES TO FOREIGN INVESTMENT, BUREAUCRATIC PROBLEMS ARE RELATIVELY "MINOR" COMPARED TO REAL OBSTACLES SUCH AS INADEQUATE FOREIGN EXCHANGE RESOURCES, INADEQUATE INFRASTRUCTURE (TRANSPORTATION, HOUSING, POWER, COMMUNICATIONS, ETC.) AND POOR GENERAL ECONOMIC CONDITIONS.

--WE BELIEVE, ALONG WITH IBRD AND IMF, THAT EGYPT HAS MADE IMPORTANT PROGRESS ON REFORMS AND IS SERIOUS ABOUT CONTINUING TO DO SO IF ADEQUATELY SUPPORTED BY DONORS. HOST GOVERNMENTS WHICH QUESTION OUR ANALYSIS OF EGYPTIAN PROGRESS MAY WISH TO CONSULT WITH IMF AND IBRD (LATTER HAS JUST PRODUCED A SIX-VOLUME REPORT ON EGYPT'S ECONOMIC CONDITIONS AND FUTURE PROSPECTS). CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, ARABS, DIPLOMATIC REPRESENTATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE135986
Document Source: CORE
Document Unique ID: 00
Drafter: CAKENNEDY/BD
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780225-0078
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780510/aaaaaine.tel
Line Count: 200
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 55294693-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2509347
Secure: OPEN
Status: NATIVE
Subject: ARAB AID TO EYPT
TAGS: EFIN, EAID, EG, US, IBRD, IMF
To: CAIRO JIDDA MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/55294693-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014